

Message Text

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SUBJECT: REVISED SLT REPORT ON REDUCED DEPENDENCE OBJECTIVES

PASS TO PETER BORRE

1. FOLLOWING IS SUGGESTED REVISION OF SLT REPORT FOR YOUR USE DURING APRIL 21/22 MEETING ALONG LINES WE DISCUSSED THIS WEEK.
2. SLT REPORT TO GOVERNING BOARD.AT ITS LAST MEETING, THE GOVERNING BOARD AGREED THAT THERE IS A PROBABILITY OF A SERIOUS IMBALANCE BETWEEN ENERGY DEMAND AND SUPPLY BY 1985 AND THAT IEA MEMBER COUNTRIES ARE FACED WITH A SERIOUS ENERGY PROBLEM.

IN LIGHT OF THIS SITUATION, THE GOVERNING BOARD REQUESTED
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THE SLT: -

1. TO PREPARE A REPORT FORMULATING THE GROUP OBJECTIVE FOR 1985;
2. TO EXAMINE THE ELEMENTS FOR ASSESSING EQUIVALENCE OF EFFORT UNDERTAKEN BY DIFFERENT PARTICIPATING COUNTRIES;
3. TO PROVIDE FURTHER ANALYSIS OF THE ISSUES RAISED BY THE SLT REVIEW AND THE SUGGESTED LINES OF FUTURE ACTION.

4. TO STUDY POSSIBLE NATIONAL AND COOPERATIVE MEASURES TO OVERCOME THE CONSTRAINTS IDENTIFIED DURING THE SLT REVIEW.

A. GROUP OBJECTIVE FOR 1985:

THE BASIC PURPOSE OF AN IEA GROUP OBJECTIVE FOR REDUCING DEPENDENCE

ON IMPORTED OIL IS TO CONTRIBUTE TO A MORE ACCEPTABLE BALANCE IN THE WORLD ENERGY MARKET. SUCH A BALANCE IS ESSENTIAL TO ENSURE THAT IEA COUNTRIES CAN ACHIEVE THEIR BASIC ECONOMIC AND POLITICAL OBJECTIVES. TO BE CREDIBLE IN TERMS OF ITS IMPACT ON OIL PRODUCING NATIONS AND OTHER COUNTRIES AND TO INDICATE THAT T" INDUSTRIALIZED COUNTRIES ARE PREPARED TO ADOPT NATIONAL

ENERGY POLICIES TO MEET THEIR RESPONSIBILITY FOR RESTORING A REASONABLE BALANCE IN WORLD ENERGY MARKETS AND THUS CONTRIBUTE TO STABLE ECONOMIC GROWTH, THE IEA OBJECTIVE MUST BE STATED AS A REALISTIC AND ACHIEVABLE LEVEL OF OIL IMPORTS BY IEA COUNTRIES IN 1985.

IN LIGHT OF THESE FACTORS, THE SLT BELIEVES AN IEA GROUP OBJECTIVE SHOULD BE FORMULATED IN QUANTITATIVE TERMS AS THE MAXIMUM LEVEL OF OIL IMPORTS THE IEA INTENDS TO ACHIEVE BY 1985.

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TO INSURE THAT IEA COUNTRIES CAN ATTAIN THIS OBJECTIVE, PARTICIPATING COUNTRIES SHOULD UNDERTAKE A POLITICAL COMMITMENT TO FORMULATE AND ESTABLISH NATIONAL ENERGY POLICIES WITHIN A COMMON POLICY FRAMEWORK ALONG THE "LINES OF FUTURE ACTION" SET OUT IN THE SLT REPORT ON THE REVIEW OF IEA MEMBERS' NATIONAL ENERGY PROGRAMS.

IN FORMULATING THE PROPOSED GROUP OBJECTIVE, THE SLT HAS EXAMINED THE POTENTIAL 11 MMBD EXCESS IN OIL IMPORT DEMAND OVER THAT PROJECTED IN MEMBER COUNTRY SUBMISSIONS WHICH WAS IDENTIFIED DURING THE REVIEW OF IEA COUNTRY NATIONAL ENERGY PROGRAMS TO DETERMINE WHAT PORTIONS MIGHT BE RECOVERED THROUGH THE ADOPTION AND IMPLEMENTATION OF MORE VIGOROUS ENERGY POLICIES.

THE SLT CONCLUDED THAT AN IEA GROUP OBJECTIVE TO HOLD OIL IMPORTS TO A RANGE OF 25 TO 26 MMBD BY 1985 WAS ACHIEVABLE. POTENTIAL SAVINGS BY SECTOR ARE INDICATED BELOW:

1) DEMAND - CONSERVATION AND MORE RATIONAL USE OF EXISTING ENERGY RESOURCES ARE THE MOST PROMISING AREAS IN WHICH SAVINGS CAN BE REALIZED.

IN ITS REVIEW OF MEMBER COUNTRY ENERGY PROGRAMS, THE SLT ASSUMED AN ANNUAL GROWTH RATE FOR TOTAL PRIMARY ENERGY (TPE) BY IEA COUNTRIES OF 4.8 PERCENT A YEAR

OVER THE PERIOD 1975-1985, RESULTING IN IEA ENERGY DEMAND OF ABOUT 100 MMBDOE (5020 MTOE) IN 1985. MEMBER COUNTRIES POSTULATED A REDUCTION IN THIS GROWTH RATE TO 4.2 PERCENT, RESULTING IN IEA ENERGY DEMAND OF ABOUT 94 MMBDOE (4700 MTOE) BY 1985.

ONE APPROACH WOULD BE TO AGREE TO HOLD THE AVERAGE LIMITED OFFICIAL USE
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GROWTH RATE IN IEA ENERGY CONSUMPTION TO A SPECIFIC LEVEL. IF THE ANNUAL TPE GROWTH RATE WERE HELD TO 3.5 PERCENT FOR THE IEA, TOTAL IEA ENERGY DEMAND IN 1985 WOULD BE 90 MMBDOE (4500 MTOE). THIS WOULD RESULT IN SAVINGS OF 5-6 MMBD OF OIL IMPORTS BASED ON EXISTING FUEL CONSUMPTION PATTERNS. THIS, OR LOWER LEVELS OF ENERGY GROWTH, APPEAR ATTAINABLE AND HAVE ALREADY BEEN ADOPTED OR PROPOSED AS NATIONAL GOALS BY CERTAIN IEA MEMBERS.

AN ALTERNATIVE APPROACH WOULD REQUIRE ACCEPTANCE OF THE 1985 OBJECTIVE FOR ENERGY CONSUMPTION RECOMMENDED BY THE CONSERVATION SUBGROUP (IEA/SLT (76)82). THIS OBJECTIVE OF HOLDING ENERGY CONSUMPTION BY IEA COUNTRIES TO 90 MMBDOE BY 1985 IS BASED ON A REDUCTION FOR THE IEA AS A WHOLE OF ABOUT 15 PERCENT IN THE TPE/GDP RATIO COMPARED TO 1973. ON EXISTING PATTERNS OF FUEL CONSUMPTION, THIS APPROACH WOULD RESULT IN APPROXIMATELY SIMILAR SAVINGS IN OIL IMPORTS OF ABOUT 5-6 MMBD.

TO ACHIEVE THESE SAVINGS, IEA MEMBERS SHOULD AGREE TO ADOPT CONSERVATION POLICIES WITHIN THE BROAD FRAMEWORK SET OUT BY THE SLT, RECOGNIZING THAT VARIOUS COUNTRIES WILL GIVE DIFFERENT EMPHASIS TO INDIVIDUAL ELEMENTS OF SUCH CONSERVATION MEASURES TO MEET OTHER OBJECTIVES:

1. TO GIVE ENERGY CONSERVATION MUCH HIGHER PRIORITY AND RESOURCES THAN NOW GIVEN BY MOST COUNTRIES;

2. TO ADOPT AND IMPLEMENT A BASIC SET OF CONSERVATION POLICIES, INCLUDING SPECIFIC MEASURES IN INDUSTRIAL, RESIDENTIAL/COMMERCIAL, TRANSPORTATION AND ENERGY

SECTORS ALONG THE LINES DESCRIBED IN ANNEX A OF IEA/GB (77) 13;
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3. TO ALLOW ENERGY PRICES TO REACH WORLD LEVELS AS RAPIDLY AS POSSIBLE.

2) SUPPLY - THE SLT IDENTIFIED POTENTIAL SHORTFALLS IN SEVERAL SUPPLY SECTORS: NUCLEAR POWER, OIL AND GAS PRODUCTION AND GAS IMPORTS.

A. NUCLEAR - THE SLT ESTIMATED THAT IEA NUCLEAR POWERED ELECTRICITY WOULD ACCOUNT FOR ABOUT 6.4 MMBDOE (320 MTOE) BY 1985, A SHORTFALL OF ABOUT 2.2 MMBDOE (110 MTOE) COMPARED WITH IEA MEMBER COUNTRY PROJECTIONS. THE 1977 REVIEW OF MEMBER COUNTRY NUCLEAR PROGRAMS BY THE NUCLEAR SUBGROUP CONFIRMED THESE FINDINGS. GIVEN THE LONG LEAD TIMES NECESSARY FOR APPROVAL, SITING, CONSTRUCTION AND OPERATION OF NUCLEAR PLANTS, THIS PROJECTION

BY POLICY ACTIONS BY 1985.

NOT ALL OF THE PROJECTED SHORTFALL IN NUCLEAR POWER CAPACITY WILL BE DIRECTLY TRANSLATED INTO INCREASED OIL IMPORTS. IN ADDITION, THE PROJECTED RATE OF GROWTH IN DEMAND FOR ELECTRICITY MAY FALL SHORT OF PROJECTIONS. MOST, IF NOT ALL OF THIS SHORTFALL COULD BE OFFSET THROUGH VIGOROUS ENERGY POLICIES INCLUDING INCREASED USE OF OTHER FUELS, PRIMARILY COAL, AND MORE STRINGENT CONSERVATION MEASURES. SUCH POLICY ACTIONS COULD RESULT IN SAVINGS OF APPROXIMATELY 1.5 MMBD OF OIL IMPORTS, ASSUMING THAT AS MUCH AS SEVENTY-FIVE PERCENT OF THE NUCLEAR SHORTFALL WERE RECOVERED. THIS SAVINGS COULD BE ACHIEVED IF IEA COUNTRIES AGREE:

1) TO COOPERATE IN SOLVING THE PROBLEMS ASSOCIATED WITH THE NUCLEAR FUEL CYCLE;

2) THAT ALL NEW BASE LOAD POWER STATIONS SHOULD BE NON-LIMITED OFFICIAL USE
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OIL FIRED; AND

3) TO COOPERATE FULLY TO OVERCOME EXISTING CONSTRAINTS WHICH IMPEDE COAL UTILIZATION.

B. OIL PRODUCTION - IEA PRODUCTION LEVELS FORECAST BY MEMBER COUNTRIES, MINUS THE POSSIBLE SHORTFALLS, WERE ESTIMATED AT ABOUT 16.3 MMBD (1815 MTOE) BY 1985. BY FACILITATING THE ACCELERATED DEVELOPMENT OF OIL IN OFF-SHORE AND FRONTIER AREAS, WITH REASONABLE ENVIRONMENTAL

SAFEGUARDS, MEMBER COUNTRIES COULD INCREASE IEA OIL PRODUCTION BY SOME 2.5 MMBD BY 1985, AND REDUCE OIL IMPORTS BY A SIMILAR AMOUNT.

C. GAS IMPORTS - IEA COUNTRIES EXPECT NATURAL GAS IMPORTS TO INCREASE FROM 8 MTOE IN 1975 TO 112 MTOE IN 1985. THE SLT CONSIDERED THAT APPROXIMATELY 50 MTOE OF LNG IMPORTS WERE AT RISK. THIS WOULD RESULT IN INCREASED IEA OIL IMPORTS OF 1 MMBD IN 1985. APPROXIMATELY 50 PERCENT OF THIS POTENTIAL SHORTFALL COULD BE SAVED BY:

1) DEVELOPING THE GAS INFRASTRUCTURE NECESSARY TO MEET PRIORITY CONSUMER REQUIREMENTS; AND

2) INCREASING PRODUCTION AND USE OF STEAM COAL ESPECIALLY FOR ELECTRICITY GENERATION.

THE COMBINED EFFECT OF THESE POTENTIAL SAVINGS IN DEMAND AND SUPPLY AMOUNT TO APPROXIMATELY 10 MMBD WHICH WOULD RESULT IN AN OIL IMPORT LEVEL OF 25-26 MMBD BY 1985 IEA MEMBERS.

THIS LEVEL OF OIL IMPORTS IN 1985 IMPLIES LITTLE OR NO GROWTH IN OIL IMPORT DEMAND BY IEA COUNTRIES OVER THIS PERIOD, SINCE IT IS LITTLE MORE THAN CURRENT IEA OIL IMPORT DEMAND. ACHIEVING IT WILL THUS REQUIRE HOLDING LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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FLAT THE RATE OF GROWTH IN IEA OIL CONSUMPTION BY 1985 AND ENSURING THAT ANY GROWTH IN ENERGY DEMAND IS MET BY NON-OIL FUELS. IT ALSO IMPLIES THAT CONSERVATION POLICIES WILL HAVE TO BE SUBSTANTIALLY STRENGTHENED.

IN ORDER TO ENSURE THAT THE IEA CAN MEET THIS GROUP OBJECTIVE, WE SHOULD AGREE TO ADOPT A SET OF GENERAL RECOMMENDATIONS FOR ENERGY POLICY ACTIONS WITHIN THE FRAMEWORK OF THOSE SET FORTH IN THE SLT REPORT. THESE RECOMMENDATIONS, ALTHOUGH OF A GENERAL NATURE SHOULD BE PHRASED IN SUCH A SPECIFIC WAY THAT PARTICIPATING COUNTRIES WOULD CONSIDER THEM AS RELEVANT ELEMENTS OF THEIR NATIONAL ENERGY POLICY AND NOT FIND IT TOO DIFFICULT TO TRANSLATE THEM INTO CONCRETE POLICY MEASURES.

THE ANNUAL REVIEW OF IEA MEMBER COUNTRY ENERGY PROGRAMS MUST BE VIGOROUS. IT SHOULD CONSIDER:

-- THE RELATIONSHIP BETWEEN NATIONAL ENERGY POLICIES AND THE GROUP OBJECTIVE;

-- THE EQUIVALENCE OF EFFORTS BY MEMBER COUNTRIES; AND

-- THE POTENTIAL FOR COOPERATION BY IEA MEMBERS TO OVERCOME CONSTRAINTS.

THE IEA SHOULD ALSO AGREE TO ASSESS, ON AN ANNUAL BASIS, THE GROUP OBJECTIVE FOR REDUCED DEPENDENCE IN LIGHT OF THE RESULTS OF THE REVIEW OF MEMBER COUNTRY ENERGY PROGRAMS AND OTHER DEVELOPMENTS.

THE IEA SHOULD CONSIDER THE UTILITY OF EXTENDING THE ANALYSIS BEYOND 1985, PERHAPS TO 1990, TO CONSIDER WHETHER ALTERNATIVE ENERGY POLICIES WOULD BE APPROPRIATE. THIS WOULD ALSO HELP ENSURE THAT THE PRIORITIES AND OBJECTIVES OF R&D STRATEGIES TO SUPPORT MEDIUM TERM LIMITED OFFICIAL USE
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POLICY GOALS AND IN THE ESTABLISHMENT OF LONGER TERM GOALS FOR THE TRANSITION TO RENEWABLE ENERGY SOURCES CAN BE ACHIEVED.

2. YOU WILL BE RECEIVING DRAFT LANGUAGE ON THE OTHER THREE SECTIONS OF THE SLT REPORT THURSDAY, AFTER WE HAVE HAD AN OPPORTUNITY TO REVIEW THE NOTE JUST RECEIVED FROM THE DANISH DELEGATION.
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